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FM AMEMBASSY HARARE

TO RUEHC/SECSTATE WASHDC PRIORITY 4157

INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE

RUEHUJA/AMEMBASSY ABUJA 2225

RUEHAR/AMEMBASSY ACCRA 2685

RUEHDS/AMEMBASSY ADDIS ABABA 2806

RUEHBY/AMEMBASSY CANBERRA 2074

RUEHDK/AMEMBASSY DAKAR 2430

RUEHKM/AMEMBASSY KAMPALA 2854

RUEHNR/AMEMBASSY NAIROBI 5282

RUEAIIA/CIA WASHDC

RUEHGV/USMISSION GENEVA 1975

RHEHAAA/NSC WASHDC

RHMFISS/JOINT STAFF WASHDC

RUEHC/DEPT OF LABOR WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RHEFDIA/DIA WASHDC

RUCPDOC/DEPT OF COMMERCE WASHDC

RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK

RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 02 HARARE 000204

SENSITIVE

SIPDIS

AF/S FOR B. WALCH

AF/EPS FOR ANN BREITER

NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

STATE PASS TO USAID FOR L.DOBINS AND J. HARMON

TREASURY FOR D. PETERS

COMMERCE FOR ROBERT TELCHIN

ADDIS ABABA FOR USAU

ADDIS ABABA FOR ACSS

E.O. 12958: N/A

TAGS: ECON EFIN PGOV PREL ZI

SUBJECT: DONORS BRIEF IMF TEAM ON EVE OF MEETINGS WITH ZIM GOVERNMENT

SUMMARY

¶1. (SBU) On March 8, Ambassador McGee and key like-minded ambassadors briefed the IMF Article IV mission team on the lack of political will to make the inclusive government work among top ZANU-PF officials, the dire state of Zimbabwe's public finances, and the incompetence and corruption of Reserve Bank Governor Gideon Gono. Post is facilitating meetings for the IMF mission with industry leaders to ensure it is well informed of business conditions here. In addition, we encouraged the mission to issue a press statement with its recommendations at the conclusion of the visit. END SUMMARY.

Donor Ambassadors Brief IMF Mission Upon Arrival

¶2. (SBU) On March 8, Ambassador McGee hosted a reception for the IMF Article IV mission to brief the IMF's new Zimbabwe team on the political and economic situation in the country. The IMF mission will conduct meetings with GOZ officials and the business and donor communities in Harare from March 9-25. Joined by EU Ambassador Xavier Marchal, German Ambassador Albrecht Conze, Canadian Ambassador Barbara Richardson, UK/DFID Economic Advisor Stuart Tibbs, DCM, USAID Director and Econoff, Ambassador McGee told the mission that top ZANU-PF officials lacked the political will to make the government of national unity work. He also impressed upon the mission the dire state of Zimbabwe's public finances. Concerned that the IMF might tolerate Gideon Gono remaining

Governor of the Reserve Bank of Zimbabwe (RBZ), the ambassadors reiterated the donor community's opinion that Gono must go before donor support could flow. Ambassador McGee also shared with the mission the donor community's five principles of re-engagement and examples of benchmarks for operationalization of the principles.

Filling the Revenue Gap

13. (SBU) Cognizant of the steep shortfall in revenue and the GOZ's ambitious commitment to pay civil servants in foreign exchange, mission chief Vitalyi Kramarenko pressed the diplomats for suggestions of possible new revenue sources for the government, suggesting increased taxation of the wealthy, perhaps including higher property taxes. DFID's Tibbs pointed out the tiny size of the formal economy and the government's dependence, for now at least, on VAT returns for tax revenue. Ambassador McGee commented that most of the new personal wealth in Zimbabwe was derived from informal or illicit activities. Ambassador Richardson related that Canada's two gold companies in Zimbabwe planned to increase production now that the gold price had been freed. She said Qproduction now that the gold price had been freed. She said the current high world gold price could contribute to tax revenues, but not immediately.

Enhanced Humanitarian and Technical Assistance

HARARE 00000204 002 OF 002

14. (SBU) Regarding the acute need for budget support, in particular to pay school teachers, Tibbs expressed the UK government's concern that enhanced humanitarian assistance of this type lacked an "exit strategy." He said his government also feared that ZANU-PF could perceive the assistance as donor willingness to provide immediate support regardless of progress on the principles of re-engagement. On the dire need for technical assistance (TA) to the ministries, especially the Ministry of Finance, Kramarenko said the IMF was prohibited from providing TA to Zimbabwe at the moment, but staff could consider seeking a one-time exception from the IMF Board. In any case, it would cover no more than 1-2 experts.

15. (SBU) Ambassador McGee welcomed news that Sharmini Coorey, former mission chief to Zimbabwe, would join the mission for its final three days in Harare. The mission will meet again with the like-minded donor group on March 16 and give a "Week One" status report. In addition, it has sought and received Post's assistance in arranging meetings with industry leaders in banking, agriculture, and accountancy. Post has also arranged an overview on business conditions by the American Business Association of Zimbabwe (ABAZ) as well as meetings for the mission with key exporters: gold, platinum, and diamond producers; tobacco producers; and cotton producers. Ambassador McGee encouraged Kramarenko to convey the mission's recommendation to government in a press statement at the conclusion of its mission. If the mission decided to issue a statement, Kramarenko said it would possibly recommend an audit of the RBZ and the return of all budgetary responsibility to the Ministry of Finance; he said the mission could not recommend Gono's removal. Finally, the team agreed to participate in a March 20 DVC with members of the Washington donor's conference.

COMMENT

16. (SBU) The IMF mission members are for the most part new to Zimbabwe. On the eve of their meetings with government, in particular with the RBZ, we sought to alert them to the

problem of political will and to the incompetence and corruption of Gideon Gono's stewardship of the RBZ. While we were struck by some of the mission chief's unrealistic initial thoughts on tax revenue sources, the ensuing thirteen days of meetings with government officials and the business and donor communities should provide the team with ample information to identify where the rot lies and advise the GOZ on the best way forward. We will continue to encourage the mission to issue a press statement with recommendations at the end of their visit, in particular to clarify the notion, reported on the front page of today's The Herald, of "IMF Oreported on the front page of today's The Herald, of "IMF ready to assist Zim." END COMMENT.

MCGEE